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Statement by the Honorable Bob Bergland
Secretary of Agriculture
before the
Committee on Foreign Affairs
United States House of Representatives
February 12, 1980

Mr. Chairman, I welcome this opportunity to meet with the Foreign Affairs Committee -- to discuss the changed requirements for U.S. food aid to poor countries in light of Soviet actions in South Asia and President Carter's response to those actions.

First I might reaffirm that the President's curtailment of agricultural shipments to the USSR was a very special situation and does not in any way alter our determination to meet the needs of other commercial export customers and concessional sales recipients. It was a situation so extraordinary that one could hardly imagine a comparable circumstance involving a customer other than the Soviet Union.

The action was carried out under specific provisions of the Export Administration Act applicable when vital security and foreign policy interests of the United States are affected. Moreover, it was consistent with several other actions ordered by the President in this emergency.

On January 4, when President Carter ordered the suspension of grain shipments, the Soviet Union had contracts for 21.8 million metric tons of U.S. grains to be delivered in the fourth year of the five-year U.S.-USSR Grains Agreement. This 21.8 million tons included 6.7 million tons of wheat and 15.1 million tons of corn.

At that time, about 5.5 million tons of wheat and corn had already been shipped. Since the agreement assured the Soviets of 8 million tons--and we intend to honor that agreement--there remained 2.5 million metric tons to be shipped. So far the full 2.5 million tons has not been shipped because of the actions of the International Longshoremen Association.

However, the Department of Commerce is allocating and issuing licenses on the remaining tonnage, based upon exporters' shares of contracts with the Soviets.

The effect of the President's action on January 4 was to suspend any shipments of grain above the 8 million tons, a substantial cutback from the 25 million ton maximum level agreed upon at the October 3 meeting. All of this refers to trade during the grain agreement year which began last October 1.

Trade in certain other products also is halted, including seeds, soybeans, animal feeds, meat, poultry, dairy products and some animal fats. Initially, all agricultural shipments were stopped. On January 29, however, the ban was modified to allow export of certain agricultural products not related to the feed-livestock complex and with no strategic significance. These products include feathers, tobacco, fruits and vegetables, nuts other than peanuts, and wood.

Products in a third category are subject to a case-by-case licensing procedure. These are products which might be used for feed or meat replacements under extreme circumstances -- including tallow, shrimp, and those meat extenders which in the past have been a part of normal commercial sales.

In taking these actions, the President did not intend that U.S. agriculture should bear the full burden of the loss in sales to the Soviet Union. He therefore has directed a number of actions to offset the domestic impacts resulting from the suspension of sales.

The first series of actions dealt with the immediate question of what to do about suspended sales which had already been contracted by

export firms -- some 4 million tons of wheat and 10 million tons of corn. To avert distress sales of undelivered grain, and resulting chaos in the market, the U.S. Government has offered to acquire contracts with respect to the delivery of wheat, corn and soybeans previously bound for the USSR.

In the case of corn, the Commodity Credit Corporation (CCC) will either take physical delivery or, if the farm price is above the January 4 level, arrange sale of contract rights to another party for domestic or export usage. In the case of wheat, none will move back into the commercial market. Instead, it will be reserved for use in foreign food assistance programs.

The second series of actions dealt with grain still owned by farmers. These actions are intended to isolate this grain from the marketplace to insure that farmers do not bear the brunt of the sales suspension and that farm prices will be maintained.

The farmer-owned reserve, which is the cornerstone of our food and agriculture program, has been amended to encourage farmers to place additional grain in reserve. The new incentives include increases in reserve storage payments and in the price levels at which stocks would leave the reserve. We are also waiving the first year interest charges for the next 13 million tons of corn entering the reserve. In addition to a stabilizing effort in the U.S. economy, the farmer-owned reserve provides assurance to other nations that we will have the supplies to meet export needs.

These actions have already been successful in mitigating the effects of the Soviet suspension on the domestic farm economy. Although prices weakened briefly, they have recovered significantly in the five weeks since these actions were announced.

We have also experienced a sharp rise in export demand from other countries due in part to reinforcement of the perception of the U.S. as a reliable supplier. For example, we now expect corn exports during the current year to increase 10 percent over last year's record level, despite the reduction in sales to the Soviets. The value of all farm product exports is projected at \$37 billion -- \$5 billion above last year.

The success in stabilizing U.S. farm prices and strengthening commercial export markets within existing authorities, as a result of actions already taken, needs to be matched with equal success in assuring that plentiful U.S. supplies will contribute toward meeting our food assistance commitments and helping to alleviate the critical food needs of developing countries. We will need help from Congress to do this.

The presence of 400 million to 500 million malnourished people in the developing nations is a chronic cause of distress to a humanitarian nation such as the United States. This problem is intensified when unusual shortages occur or populations are uprooted and driven from their homes by acts of war.

As of January 1980, the Food and Agriculture Organization of the United Nations (FAO) listed 26 countries as affected by abnormal food shortages as a result of poor crops, the effects of war, or difficult economic situations -- about double the number a year earlier.

Total world food production (excluding China), fell more than 2 percent in 1979--the first decline in 7 years. These generally smaller crops--the United States was an exception--followed generally high levels of production in 1978.

Output in 1979 declined most in the developed countries (about 3 percent) because of a 12 percent drop in Soviet food production. In the developing countries food production fell about 1 percent.

Measured on a per capita basis, world food production fell more than 3.5 percent, with developing countries declining slightly more than that because of their more rapid growth of population.

Among the developing regions, food production fell most sharply in South Asia, primarily the result of a decline in India's production. Only East Asia and Latin America recorded increases.

Elsewhere in Asia, the food situation remains critical in Kampuchea, complicated by the difficult political situation there.

Afghanistan faced food problems even before the Soviet invasion because drought had seriously reduced the 1979 wheat crop. The invasion led to a flow of refugees into Pakistan estimated by the United Nations at 700,000 persons. In response to an urgent request from the UN/FAO World Food Program, the United States announced in January that it would ship nearly \$4 million worth of wheat, vegetable oil, and non-fat dry milk to Pakistan (at a shipping cost of \$2.2 million) to help the refugees.

The decline in African food production continues. Overall per capita food production there is estimated to be well below levels 15 years earlier. Although our data for Africa are less firm than for many other parts of the world, they do suggest the seriousness of Africa's food problems. Dry weather reduced food production in the Sahel, with Mauritania and Chad perhaps the hardest hit. Several other countries in Africa face difficulties either because of crop shortfalls or the aftermath of political upheaval.

The level of world grain stocks gives some measure of the current degree of world food security as we move into 1980. Total grain stocks are expected to fall about 9 percent in 1979/80 to a level that represents 14.6 percent of expected grain consumption. Stocks were 16

percent of consumption in 1978/79, 10.7 percent at their low point in the 1970's (1974/75), and 18 to 21 percent in the years of surplus in the late 1960's. The concentration of these grain stocks in the developed exporting countries has increased, with the United States expected to hold 30 percent of all wheat stocks and 62 percent of all coarse grain stocks by the end of the 1979/80 season, compared with 24 percent and 49 percent, respectively, at the end of 1978/79.

In many ways, the developing countries are less able to help themselves than has been the case in earlier years. The pressures of inflation and rising energy costs are a burden to most oil importing nations. They are having a radical effect on the poorer nations.

After oil prices quadrupled in 1973, the combined current account deficit for those countries jumped from an average of \$4 billion to nearly \$21 billion. In 1979, after OPEC doubled its oil prices again, the current account deficits of the non-oil developing countries rocketed to almost \$43 billion. This year, it is estimated that the current account deficits of these countries, developing countries without their own petroleum, will rise to record levels ranging from \$64 billion to \$73 billion.

The fact is that we may see a rapid deterioration in the capacity of the oil-deficit developing countries to import food commercially-- or to import the fertilizer, capital equipment, and other items necessary to increase their own domestic food production. This is a cause for serious concern. Without assistance from the U.S. and other donors, the poor in these countries will suffer most from declining food supplies and lower incomes.

Thus, the needs for food aid in these countries are growing and the U.S. contribution toward these needs has become increasingly important. Actions are critically needed to assure that the U.S. contribution is maintained at least at the levels of recent years.

To facilitate this, President Carter will ask the Congress to provide supplemental funds to increase our foreign food assistance programs for the current fiscal year. Also, he has reaffirmed the Administration's request for legislation to permit the holding of up to 4 million tons of wheat in reserve to make sure that the U.S. can meet its food aid commitments even during periods of short supplies. May I discuss, in turn, these two measures--and the urgent need for Congressional action on both.

The extraordinary requirements of refugees in Africa and Asia have placed particularly severe demands on food donation resources under Title II of Public Law 480 during the current fiscal year. As you know, we have been seeking additional funds for the PL 480 program during the current program year. Initially, these funds were sought to restore levels of assistance eroded by increases in price. Specifically we sought to restore ongoing feeding program levels under Title II which we were forced to cut back in December due to lack of funding.

More recently, however, that need has been superseded by the need to respond adequately to requests for emergency assistance. And now, in addition to funding for those purposes, we are also requesting funds to expand PL 480 to use additional supplies, particularly of corn and soya products which will not be exported to the Soviet Union--to meet growing food aid needs and raise shipments to levels achieved in recent years.

Thus, we are strongly urging that immediate action be taken on the pending supplemental request of \$96.7 million for FY 1980 to provide emergency food assistance under Title II of PL-480 and to provide adequate support under Titles I and III in countries unable to meet their food import demands due to eroding balance of payments positions, high energy input costs, and lagging economic development progress. The support provided under Titles I and III not only increases food supplies in recipient countries but also reduces the burden on limited development resources and can spur efforts which ultimately will reduce the need for future external assistance.

An additional \$100 million in FY 1980 is also being requested to expand shipments of corn and soybean products and, at the same time, to assure an adequate United States response to rapidly increasing food needs of refugees in Africa and Asia under Title II. Half of this increase will be used for corn and soybean oil exports under Title I. Specific country allocations have not yet been determined since we are still reviewing potential programs to assure that local production efforts will not be adversely affected and that expanded PL 480 shipments will not displace commercial exports of the United States and other exporting countries.

Furthermore, negotiating agreements under PL-480 is a complicated process requiring commitments from the recipient countries. It would, therefore, be inappropriate, as well as illegal, to enter negotiations before there is certainty that additional funds will be available to implement an expanded program. Congress will, of course, be notified of individual Title I country allocations and programs prior to a final commitment of U.S. resources.

The FY 1981 PL 480 budget request is also being augmented by \$100 million to maintain the higher level of corn and soya product shipments and assure a continued United States' contribution to meeting the increasing food

needs of refugees in Africa and Asia. These needs do not appear likely to decrease during the next 18 to 24 months.

The additional supplemental for FY 1980 is expected to increase PL 480 shipments by 500,000 tons to a total of 6.5 million tons. The additional funds for FY 1981 are expected to provide additional shipments of slightly more than 400,000 -- less than in FY 1980 because a larger share of the additional funding will go into Title II which must cover transportation costs as well as commodity costs. At the expanded level, total PL 480 shipments in FY 1981 are expected to be 6.45 million tons. These levels compare favorably to FY 1979 shipments of over 6.3 million tons but are still below the high levels of assistance provided by the programs in earlier years.

The point to be made is that we have for some time needed additional funding for PL 480. The need is even greater and more urgent now with the increased refugee problem and with the increased availabilities of U.S. grain resulting from the suspension of exports to the Soviet Union. The same can be said for the food security reserve: We needed it before. We need it even more now.

We expect final negotiations for a new Food Aid Convention to be completed in March. The U.S. annual commitment, already announced, will be 4.47 million metric tons of cereals beginning this year. The enactment of legislation to establish a Food Security Reserve of 4 million metric tons is vitally important to assure our ability to meet this commitment and maintain our food aid efforts in times of short U.S. supplies. As you will recall, the shortfall in U.S. food production in 1974 resulted in a sharp reduction in food aid shipments, an action that seriously undermined U.S. credibility in its dealings with some

of the poorest countries of the world and which had direct impact on the lives of millions of hungry people throughout the developing world. The establishment and continued maintenance of a 4 million ton reserve to be used solely for food assistance would go a long way toward meeting these needs in the future.

Last May, the Administration proposed legislation to create a food security reserve of up to 4 million tons of wheat to meet emergency food needs in developing countries under PL 480. Under this proposal, the reserve could be used only when supplies are so limited that they could not be made available under PL 480 criteria. Moreover, a small portion of the reserve--300,000 tons--could be used in any fiscal year to meet urgent relief needs for which commodities could not be made available quickly enough through existing mechanisms.

As we have said before, this small quantity would be used only in extreme situations when emergency requirements greatly exceed usual levels. In these instances, under current authorities, the only way to respond rapidly to urgent requests for assistance is to short-change other feeding programs and undercut the gains we have been making in improving the long-range developmental impact of these programs.

Under the proposed food security reserve legislation, we could acquire stocks for the reserve either through direct purchases or by designating wheat already owned by the CCC. Given the current supply situation, we are planning to acquire 4 million tons of wheat under current CCC authorities due to the suspension of shipments to the Soviet Union. Once authorizing legislation is enacted, this entire quantity would be placed in the reserve and, therefore, be isolated from the commercial market. Without this authority, these supplies

would be available for sale back into the market long before supplies became so short that the authority provided by the Act would come into effect.

The present situation vividly illustrates the benefits of establishing such a reserve. We would be acquiring stocks when there is a threat to domestic prices from excess supplies. Reserve stocks, however, would pose no threat to these prices at a later date. We believe the replenishment authority provided by this Act will provide benefits to U.S. farmers in the same manner that release of the stocks under PL-480 will provide benefits to developing countries. We once again strongly urge the Congress to approve legislation to require the use of these stocks solely to honor food aid commitments, no matter what the supply circumstances may be.

In suspending the sale of grains and certain other commodities to the Soviet Union, the President made a difficult but necessary decision in the vital interest of this nation. It creates some problems of adjustment in our agricultural and marketing systems. But it also creates some opportunities--by freeing up supplies that can be used to meet growing needs for food aid and food security.

Full realization of these opportunities will require decisions on the legislative side which have been delayed for some time. I feel certain that the Congress will respond to the new urgency in food aid and food security.

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